



FEDERAL
RESERVE
BANK
of ATLANTA

Tennessee State Funding Board

November 20, 2017

Lee Jones

Regional Executive - Tennessee

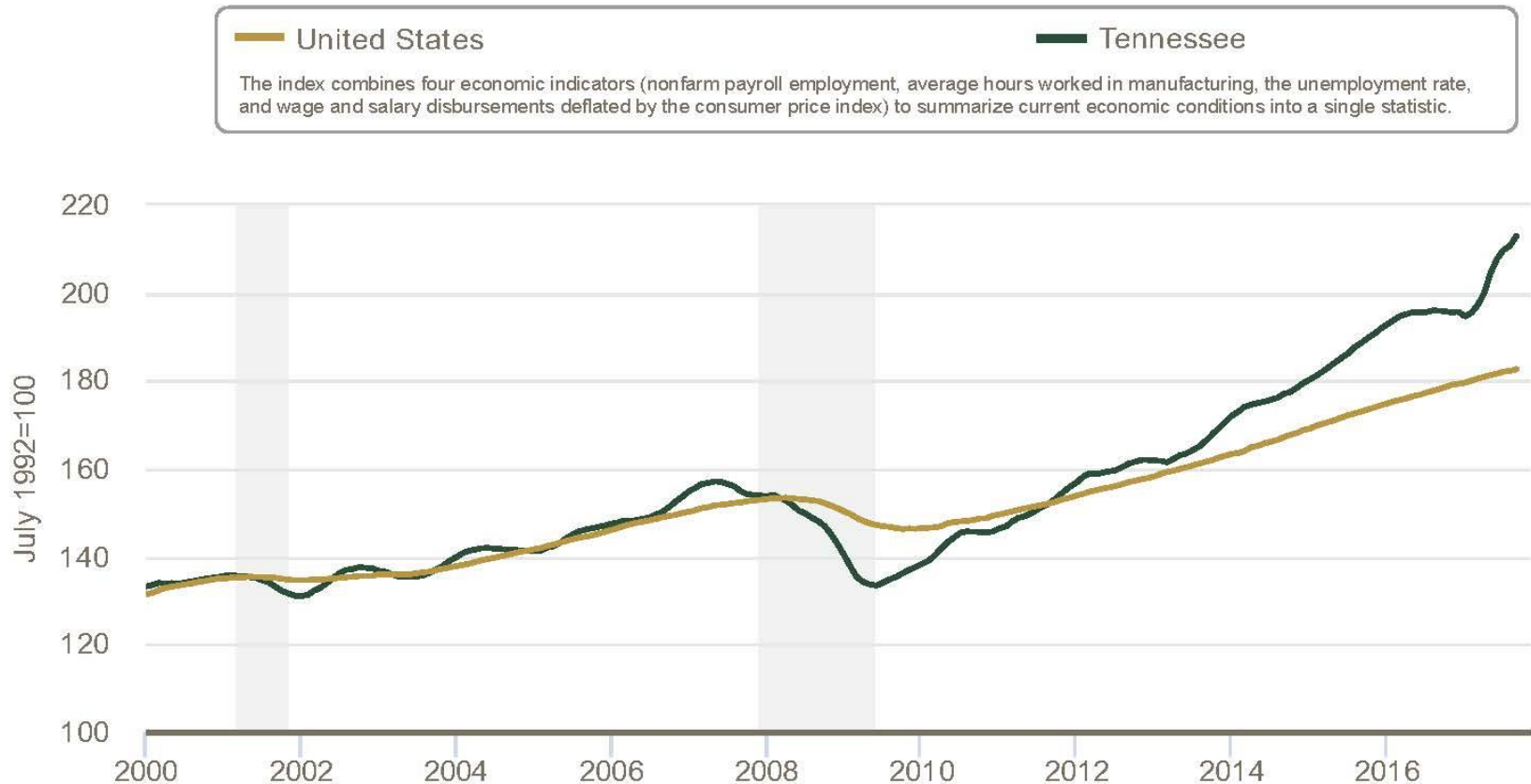
The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

The Economy

An Overview

Tennessee's economic performance continues to closely mirror, and since 2012 outperform, that of the United States.

Coincident Economic Indicator

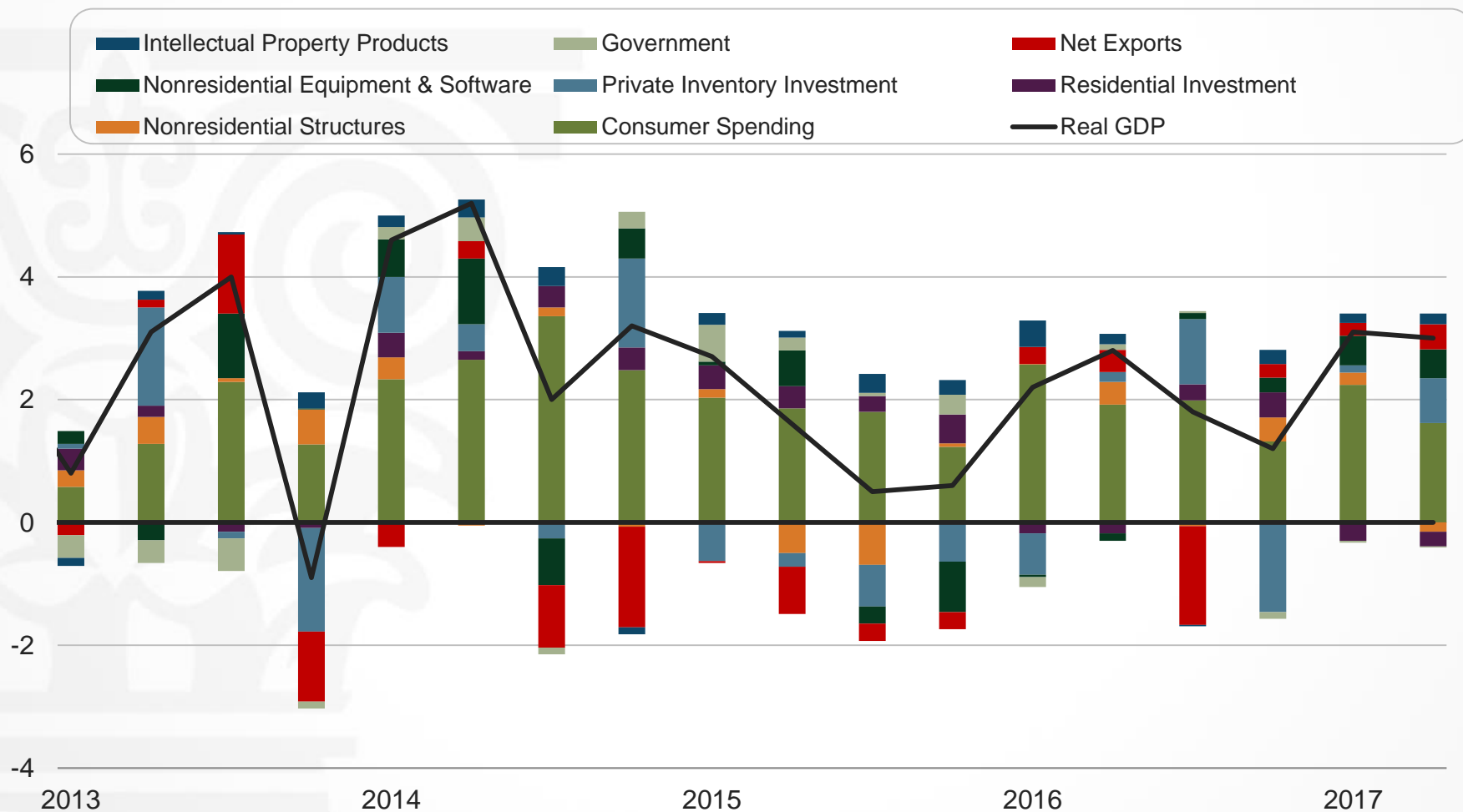


Source: Federal Reserve Bank of Philadelphia

After several lackluster quarters, Real Gross Domestic Product grew 3.0% in Q3 2017, following a 3.1% increase in Q2. Consumer spending (green) continues to be key to GDP growth.

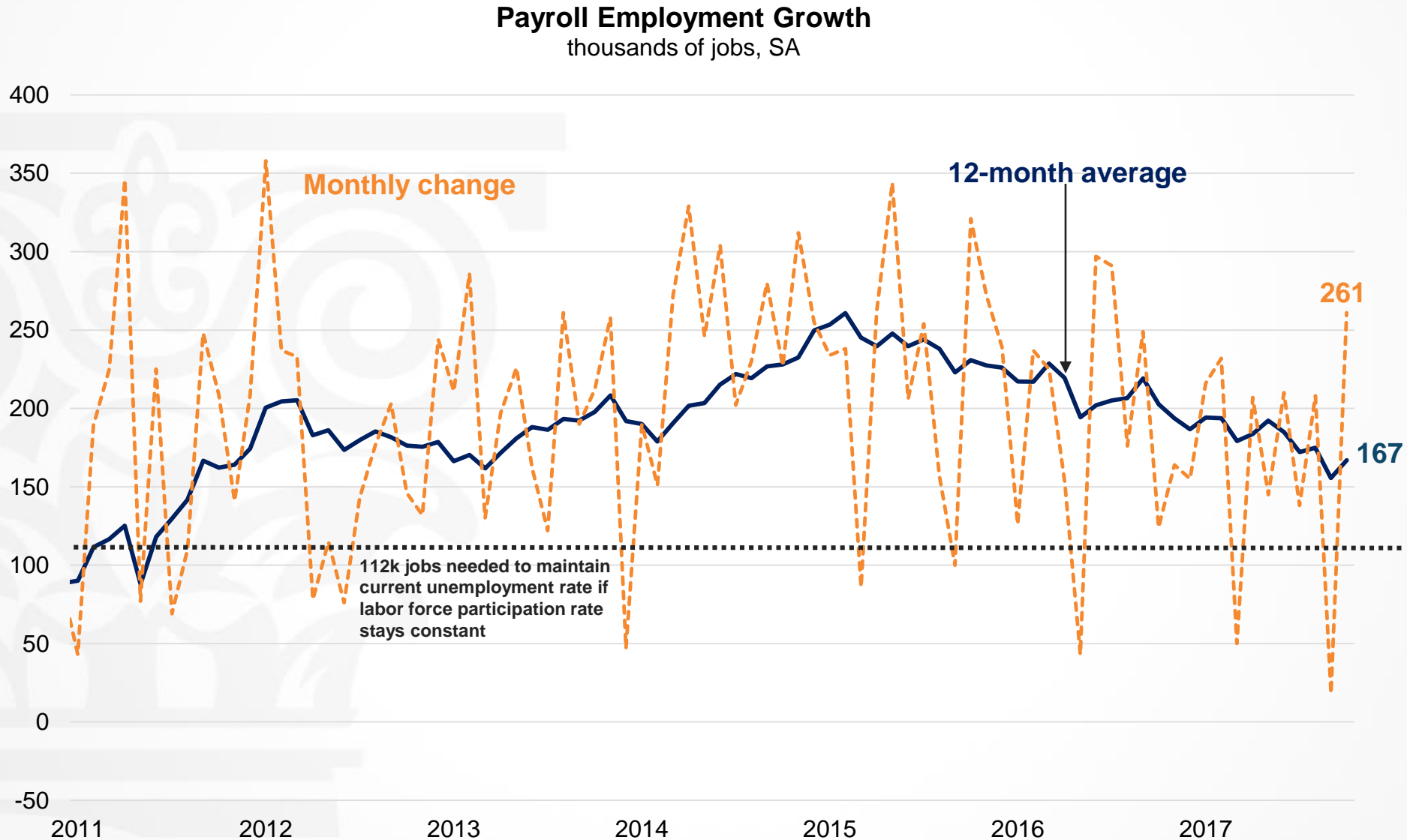
Contributions to Real GDP Growth

quarterly, percent, seasonally adjusted annualized rate



Labor Markets

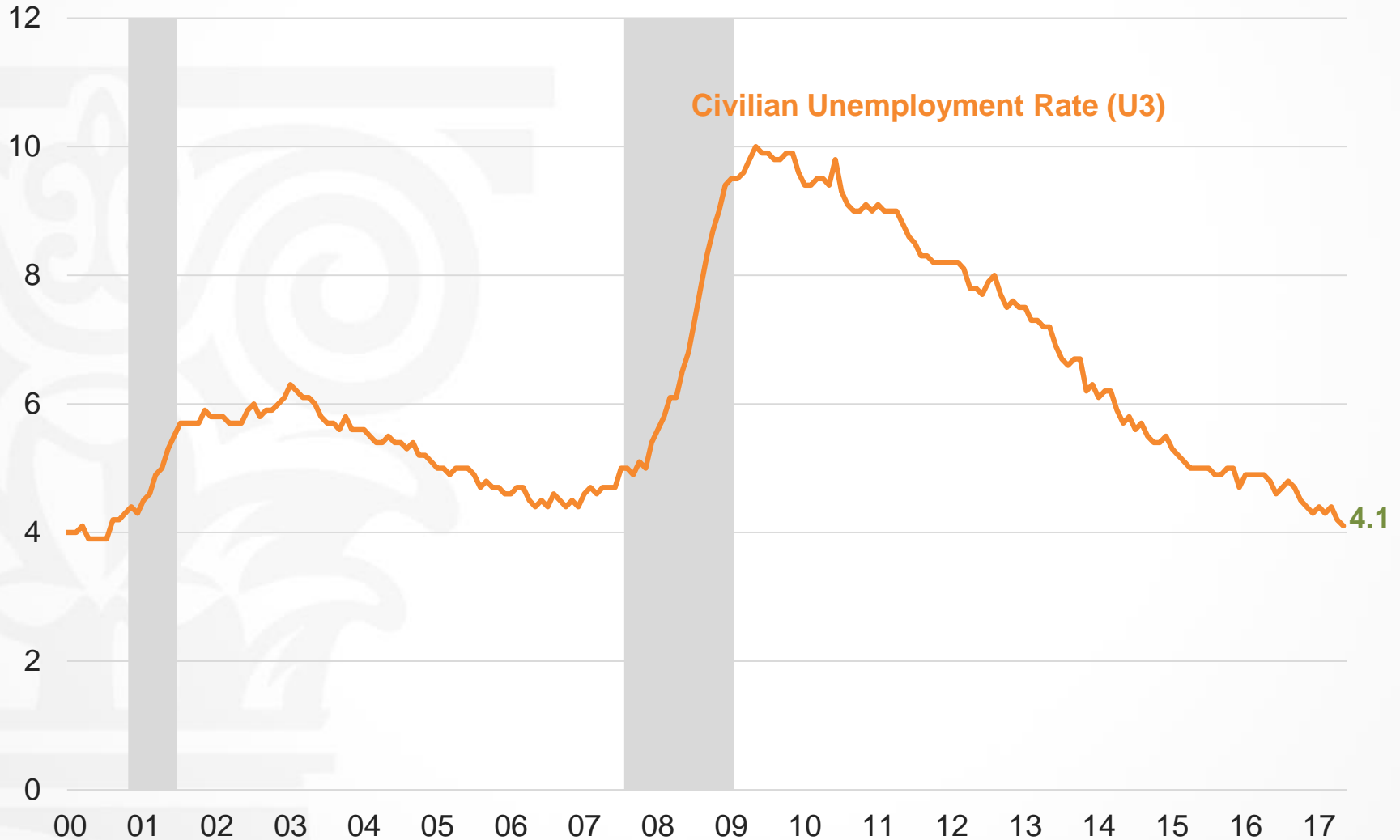
The U.S. economy added a net 261,000 new jobs in October, well above the threshold needed to continue to make progress in the labor market.



The U3 civilian unemployment rate fell to a 17-year low of 4.1% in October

Unemployment Rate

monthly, percent, seasonally adjusted



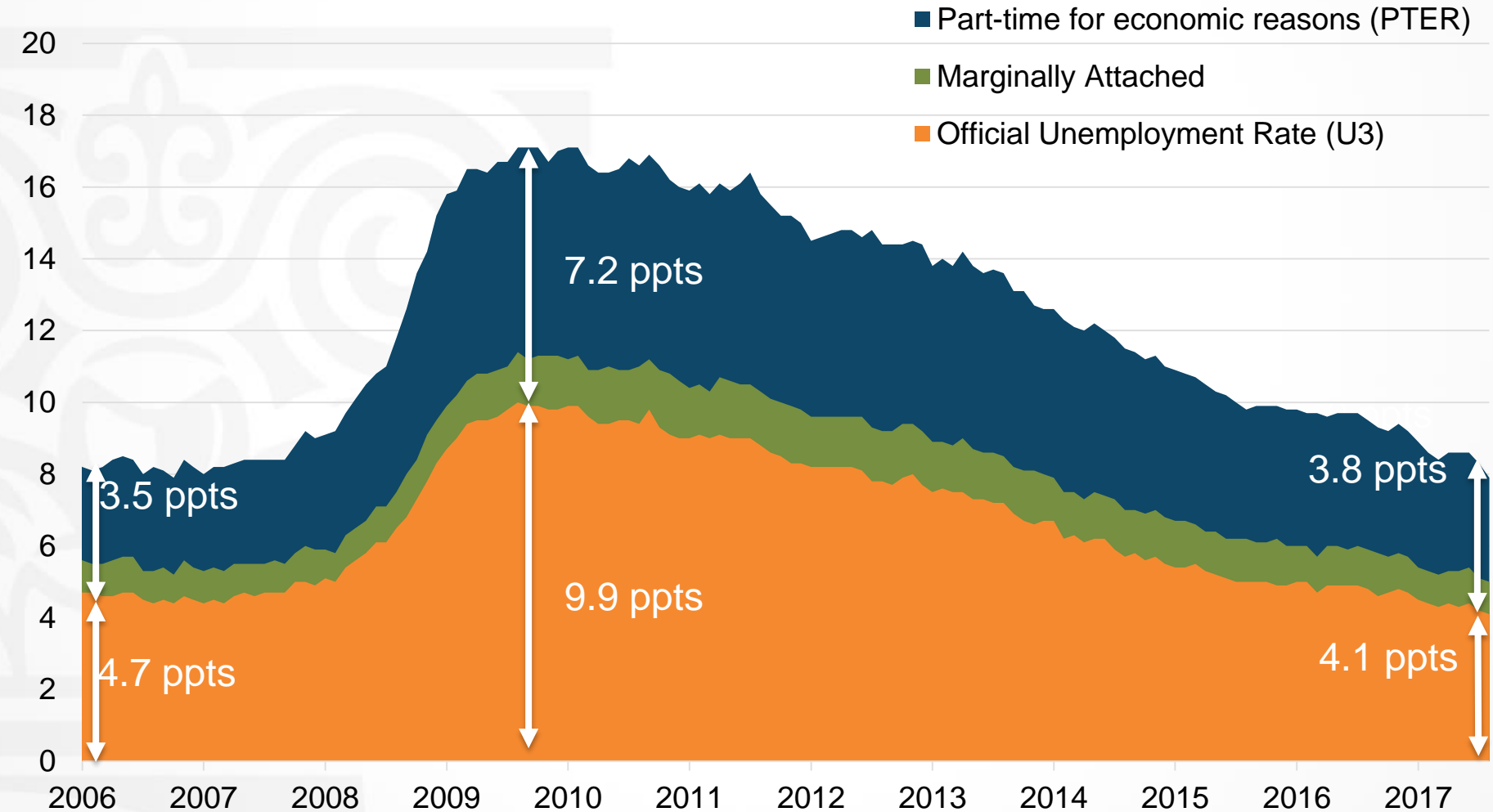
Source: Bureau of Labor Statistics, Haver Analytics

through October 2017

Broader measures of labor utilization also indicate that the labor market continues to improve

Measures of Labor Utilization

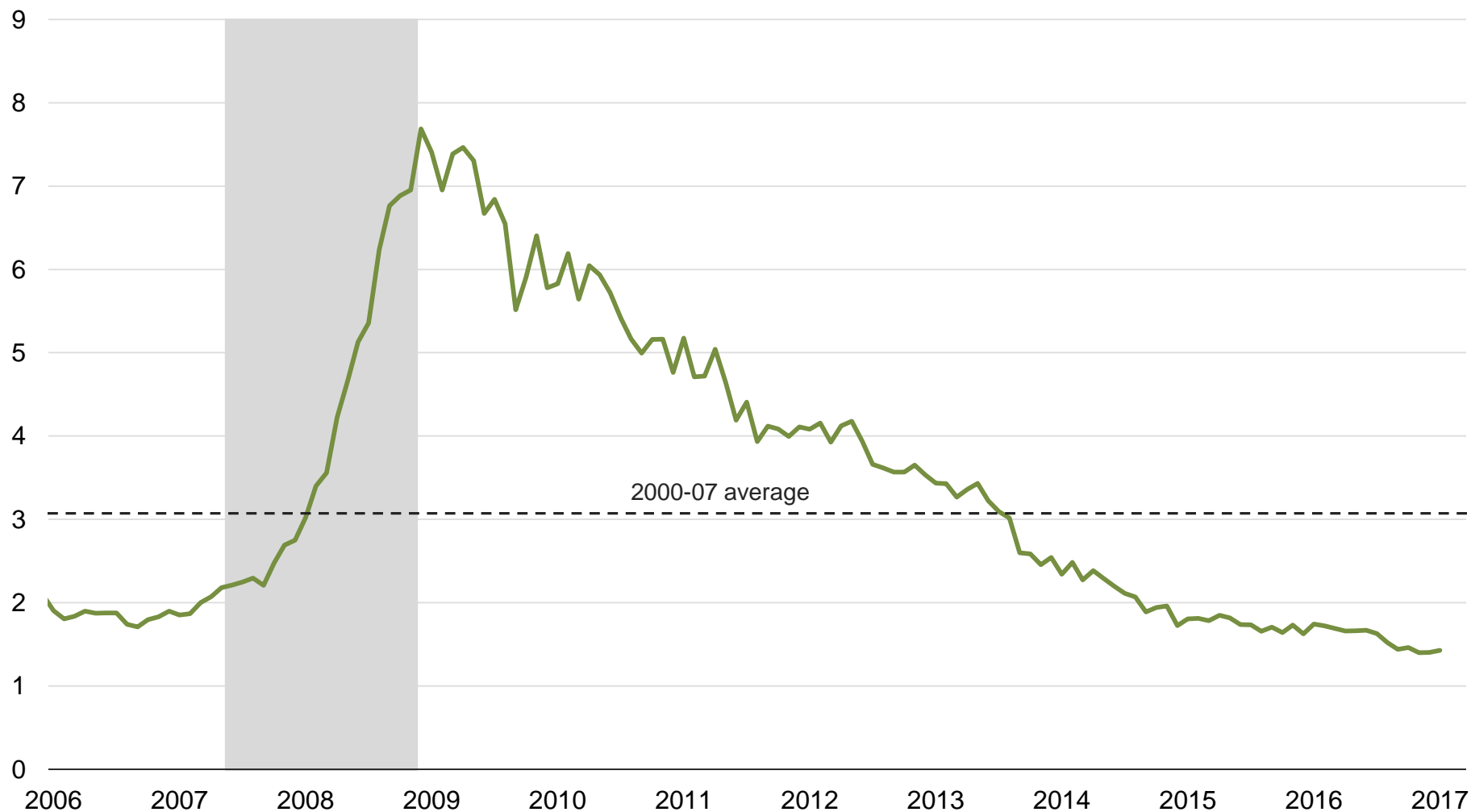
percent, monthly



The number of workers per job opening has fallen well below its pre-crises average, suggesting that the economy may be nearing “full employment.”

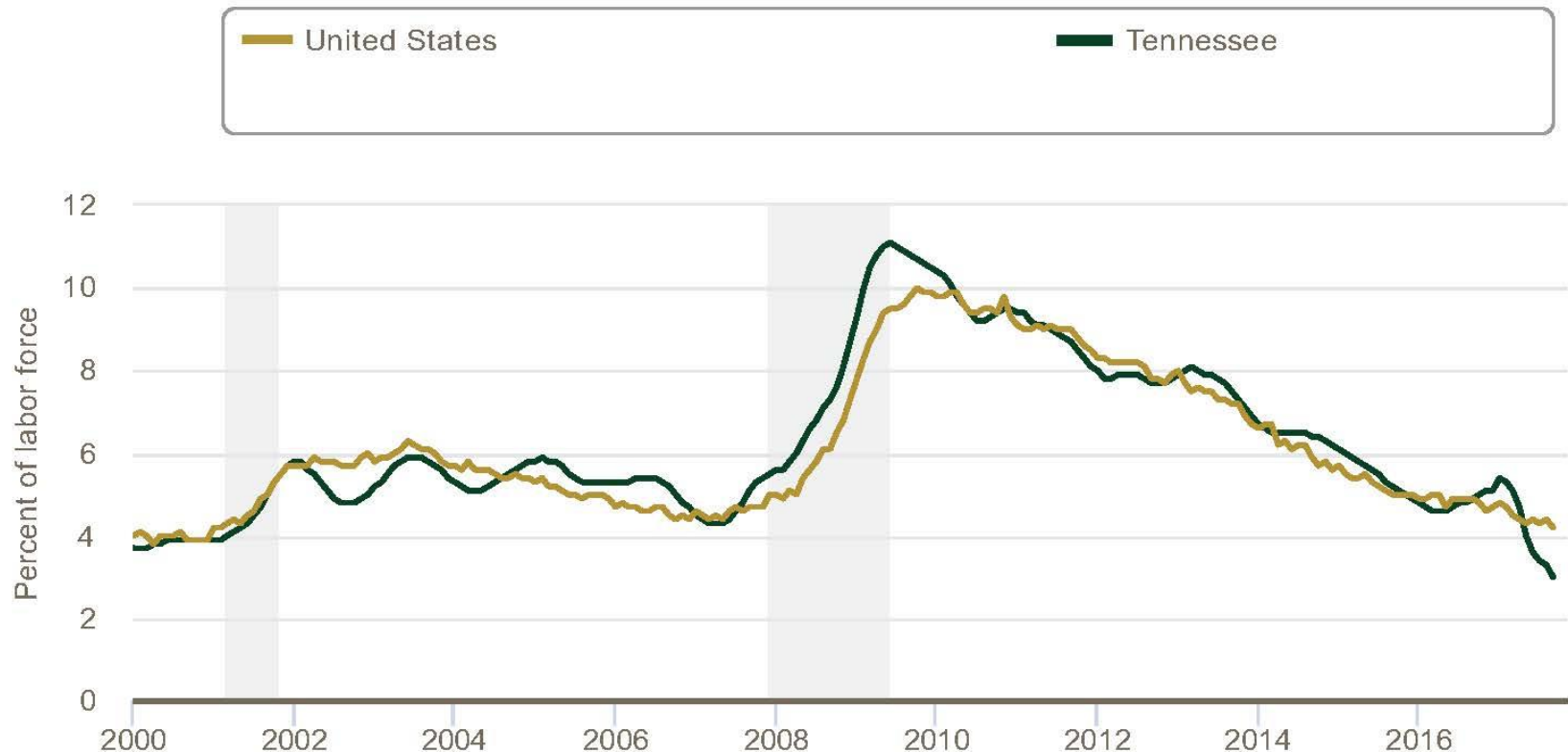
Number of Workers per Job Opening

(# of unemployed persons + # marginally attached / total # of job openings)



Turning to Tennessee, September saw the state's unemployment rate decline to 3 percent, a full percentage point below the national rate and well below that of the other states in the Atlanta Fed's six-state region.

Unemployment Rate



Source: U.S. Bureau of Labor Statistics

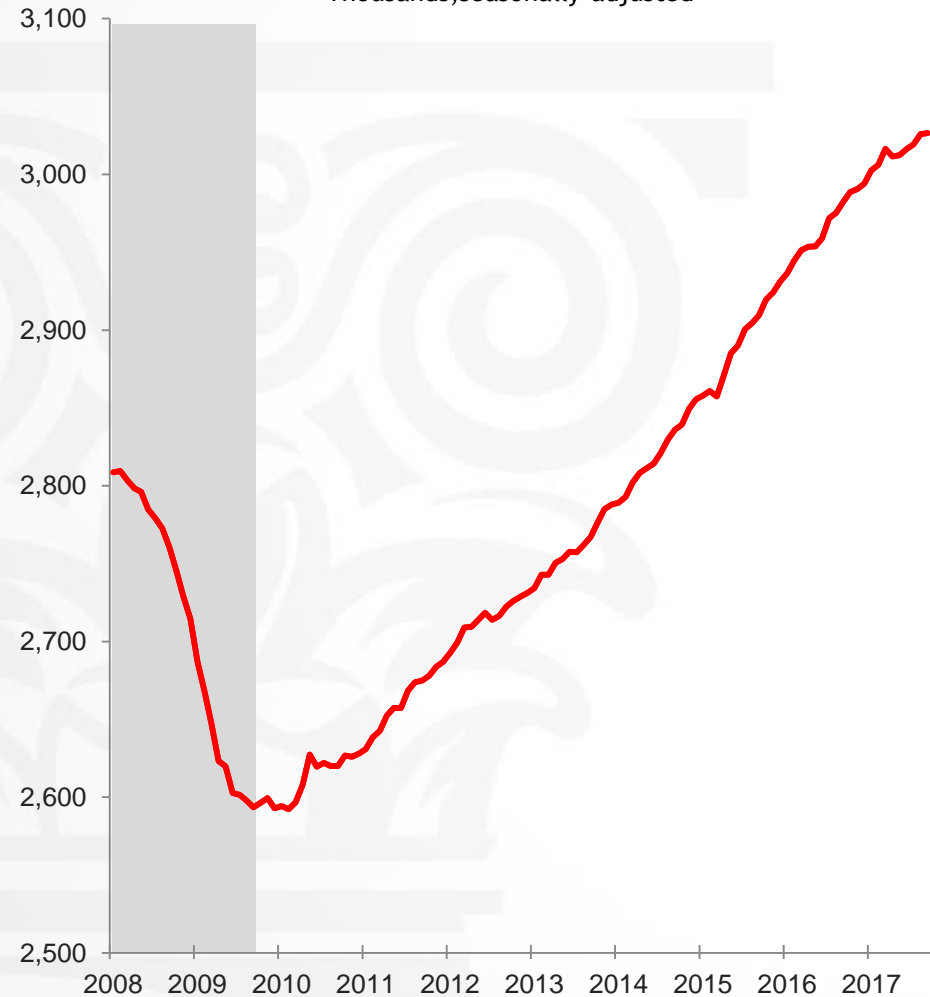


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In Tennessee, both payroll employment and initial unemployment insurance claims have improved to surpass pre-recession levels.

Tennessee Payroll Employment September 2017

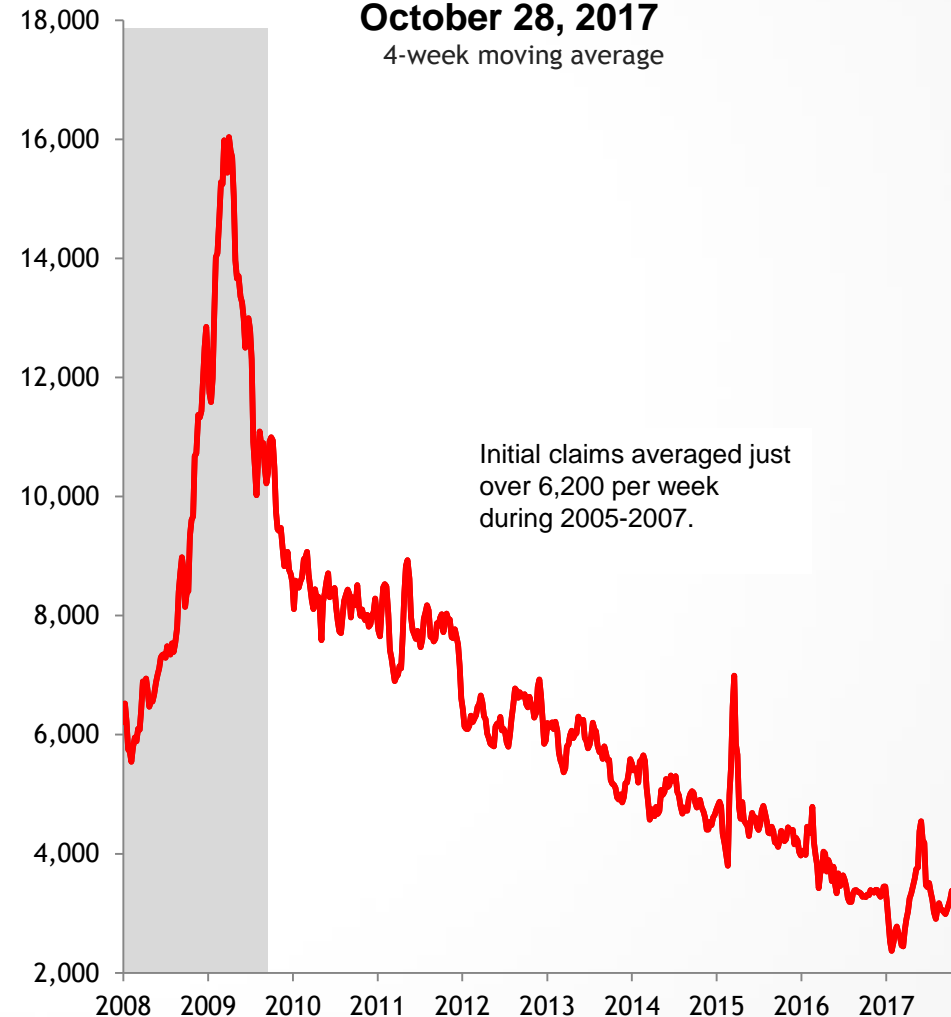
Thousands, seasonally-adjusted



Initial Unemployment Insurance Claims: Tennessee

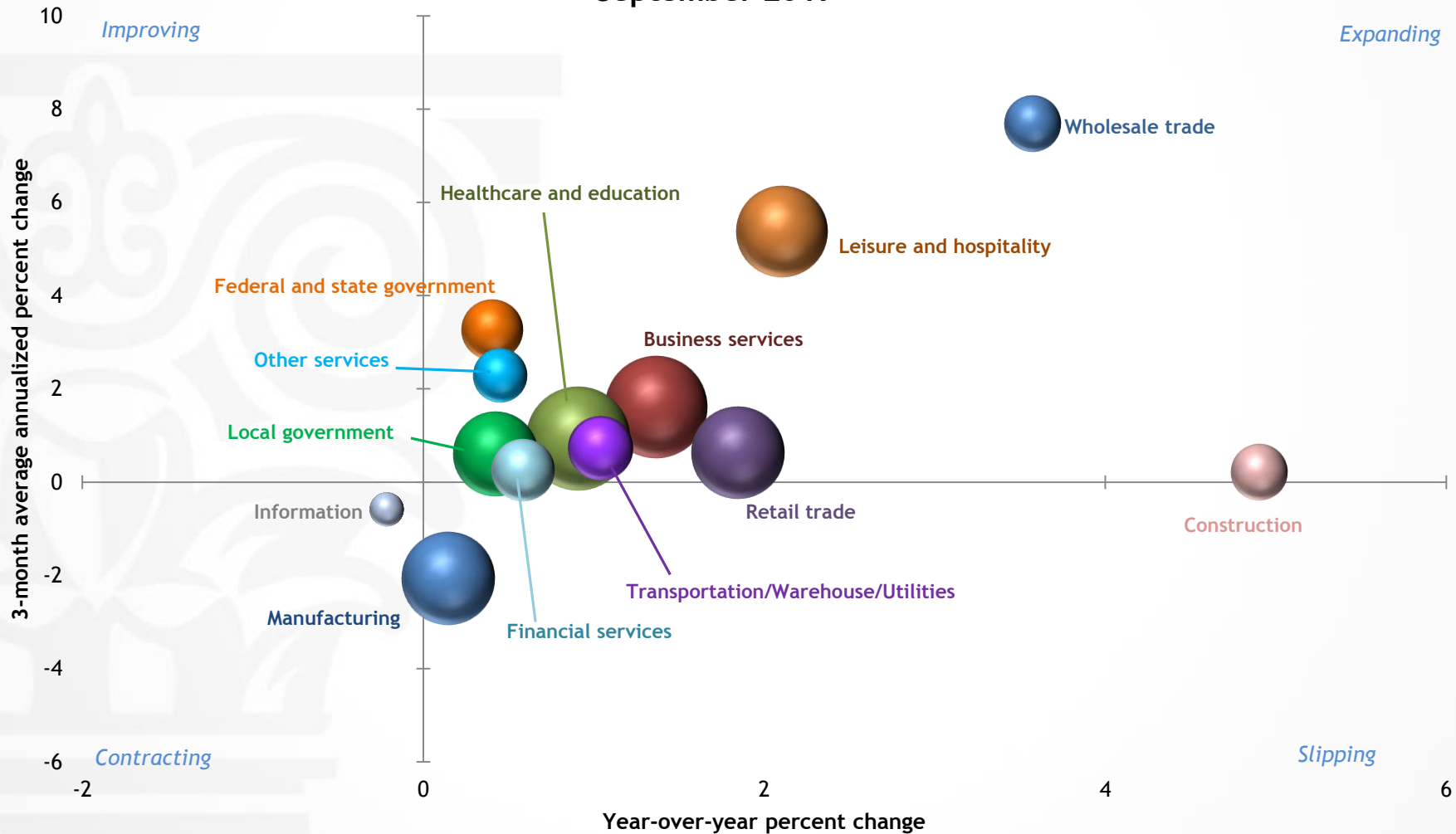
October 28, 2017

4-week moving average



Employment growth momentum in Tennessee continues to be positive, with employment in most sectors expanding over both the past 3 months (vertical axis) and 12 months (horizontal axis).

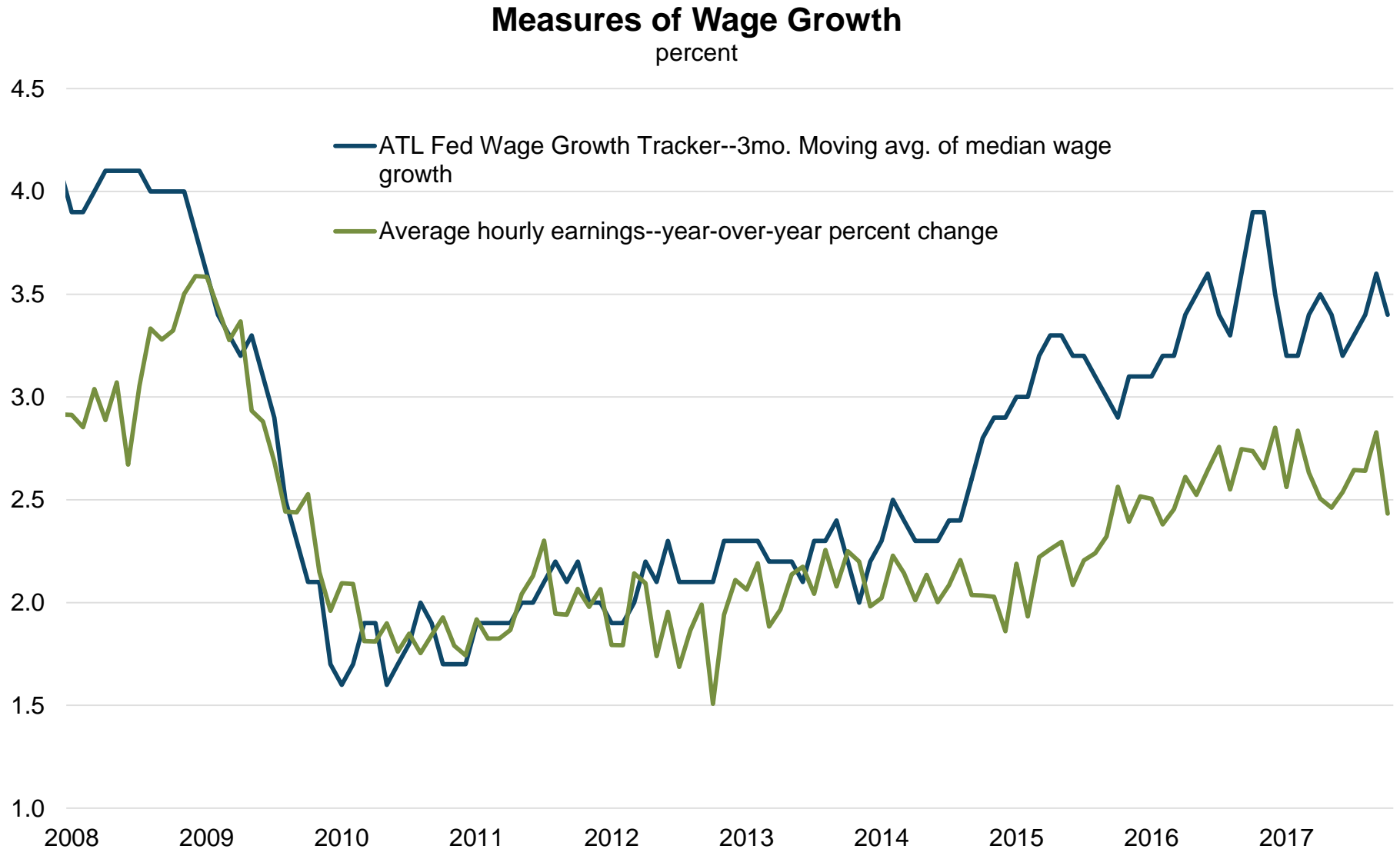
Employment Momentum by Industry: Tennessee
September 2017



Wage growth over the past few years has accelerated moderately, perhaps another sign that labor market conditions may be tightening.



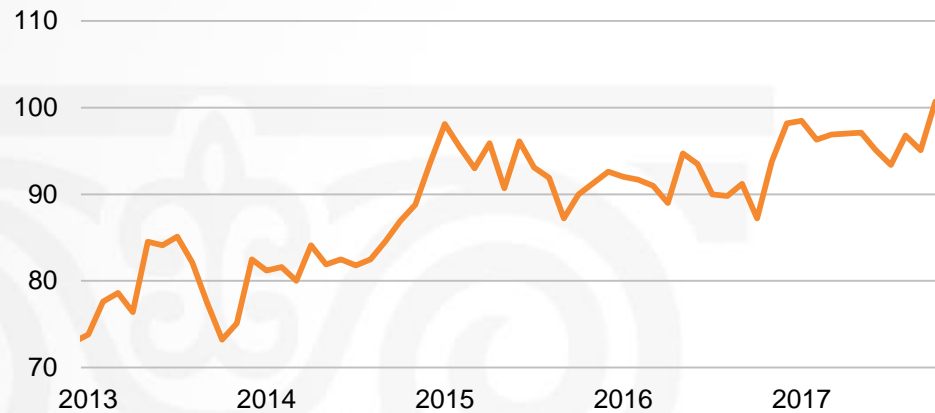
The wage acceleration is more pronounced when we look at pay for individuals in the same positions over time.



Consumer Activity

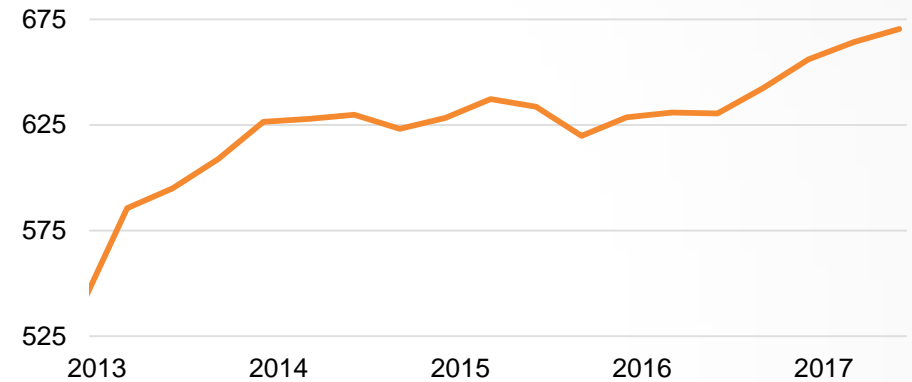
Looking at a variety of indicators, the fundamentals for consumer spending appear favorable overall.

University of Michigan Consumer Sentiment Index
Q1 1966=100



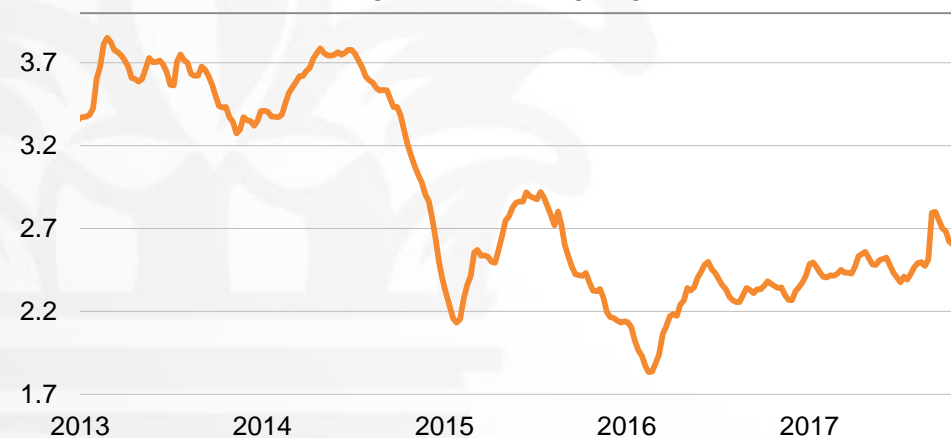
Source: University of Michigan Survey of Consumers; Haver Analytics through October 2017

Household Wealth as a Percent of Disposable Personal Income



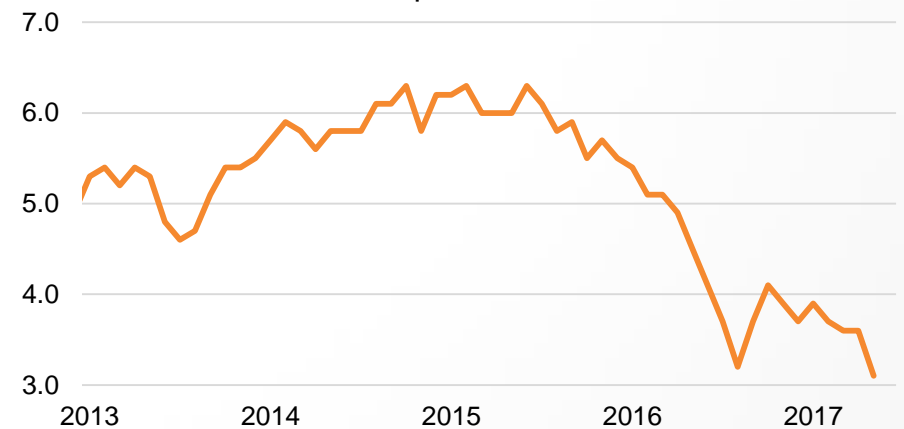
Source: Federal Reserve Board; Haver Analytics through Q2, 2017

Retail Gasoline Price
all grades, U.S. avg, \$/gallon



Source: Energy Information Administration; Haver Analytics through October 30, 2017

Personal Savings Rate
percent

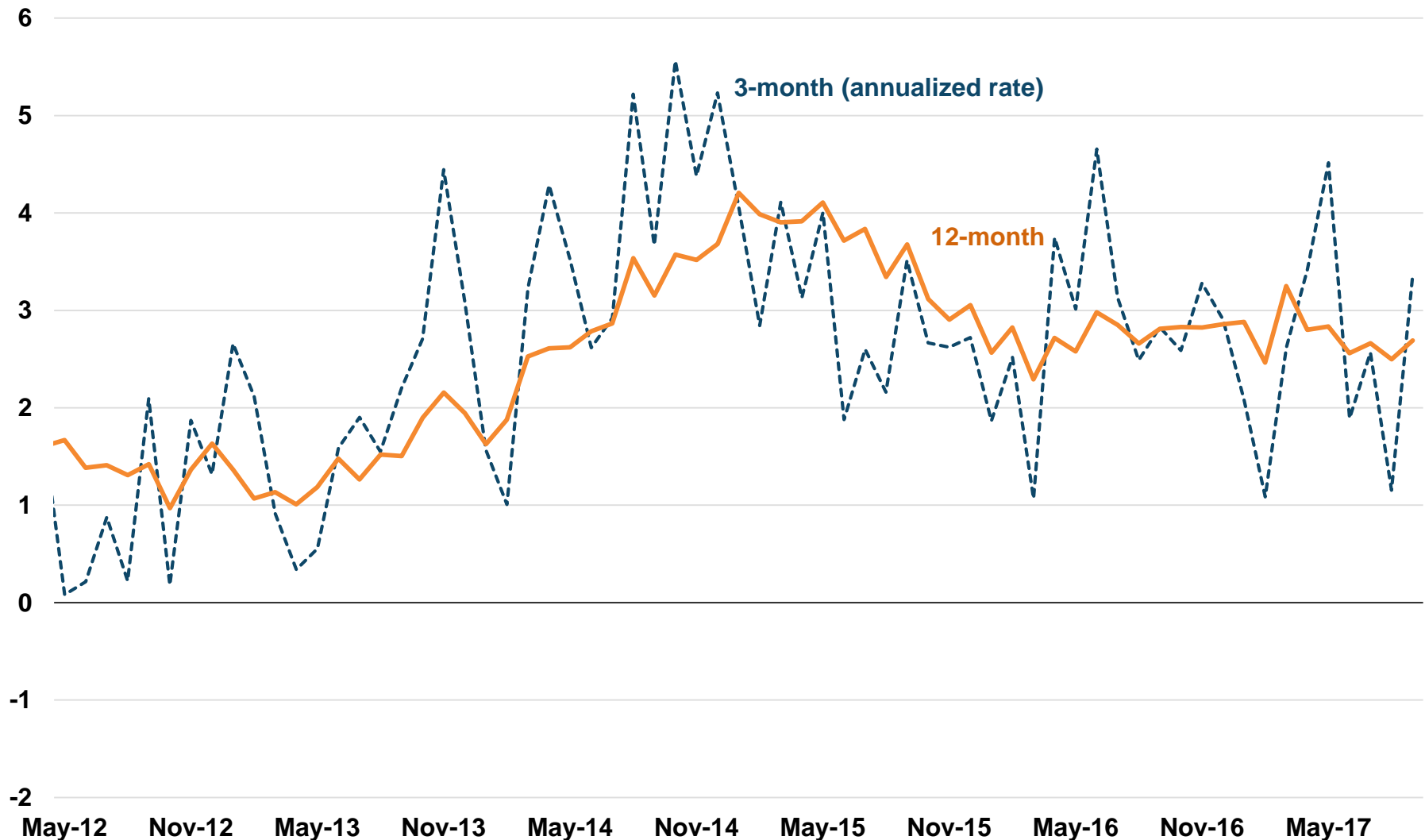


Source: Bureau of Economic Analysis; Haver through September 2017

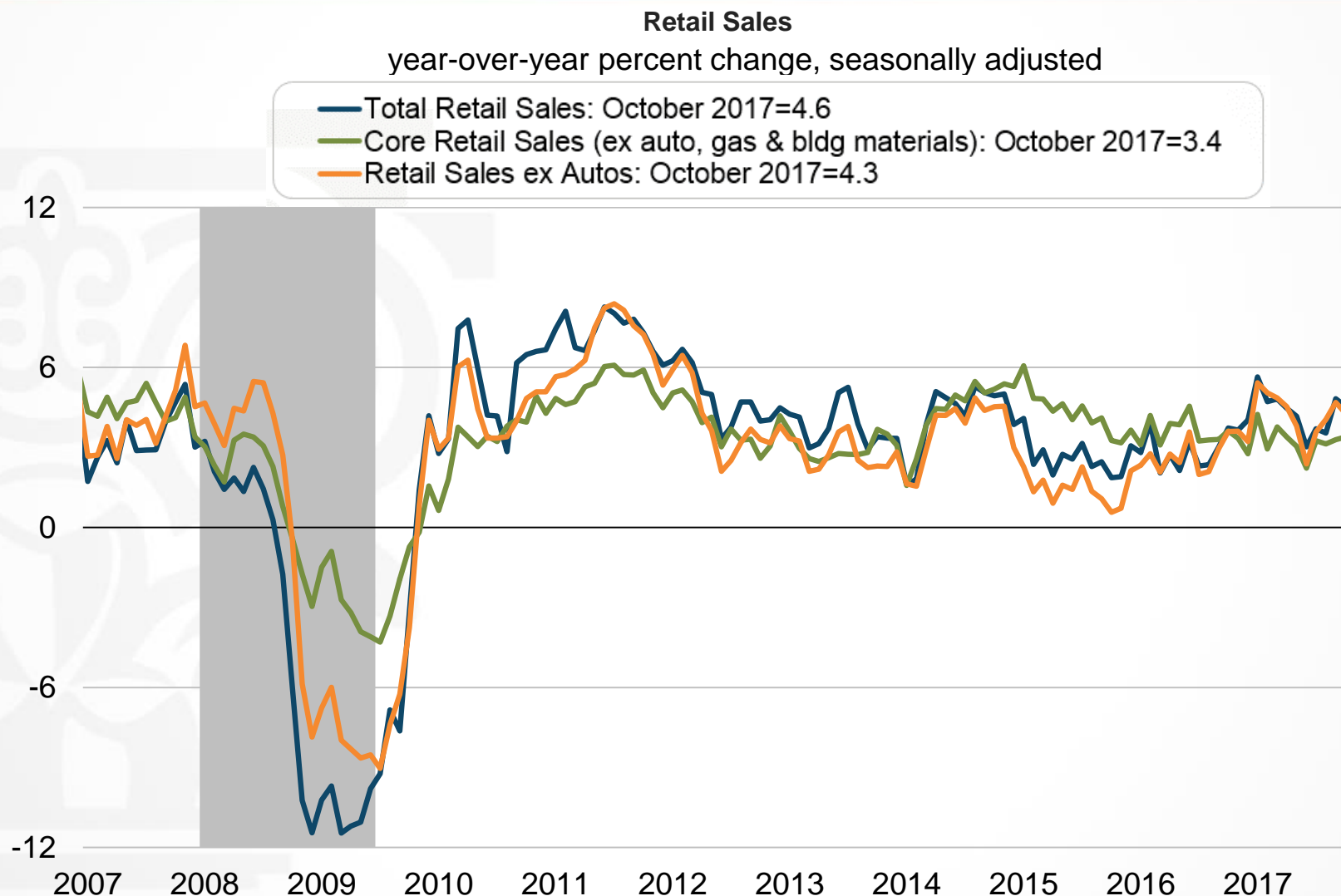
Consumer spending on goods and services has softened a bit in recent months, partially reflecting the impact of the recent storms. That said, spending surged in September as the rebuilding process began. All told, real personal consumption is on track to post around a 2.5 percent increase in 2017.

Real Personal Consumption Expenditures

percent

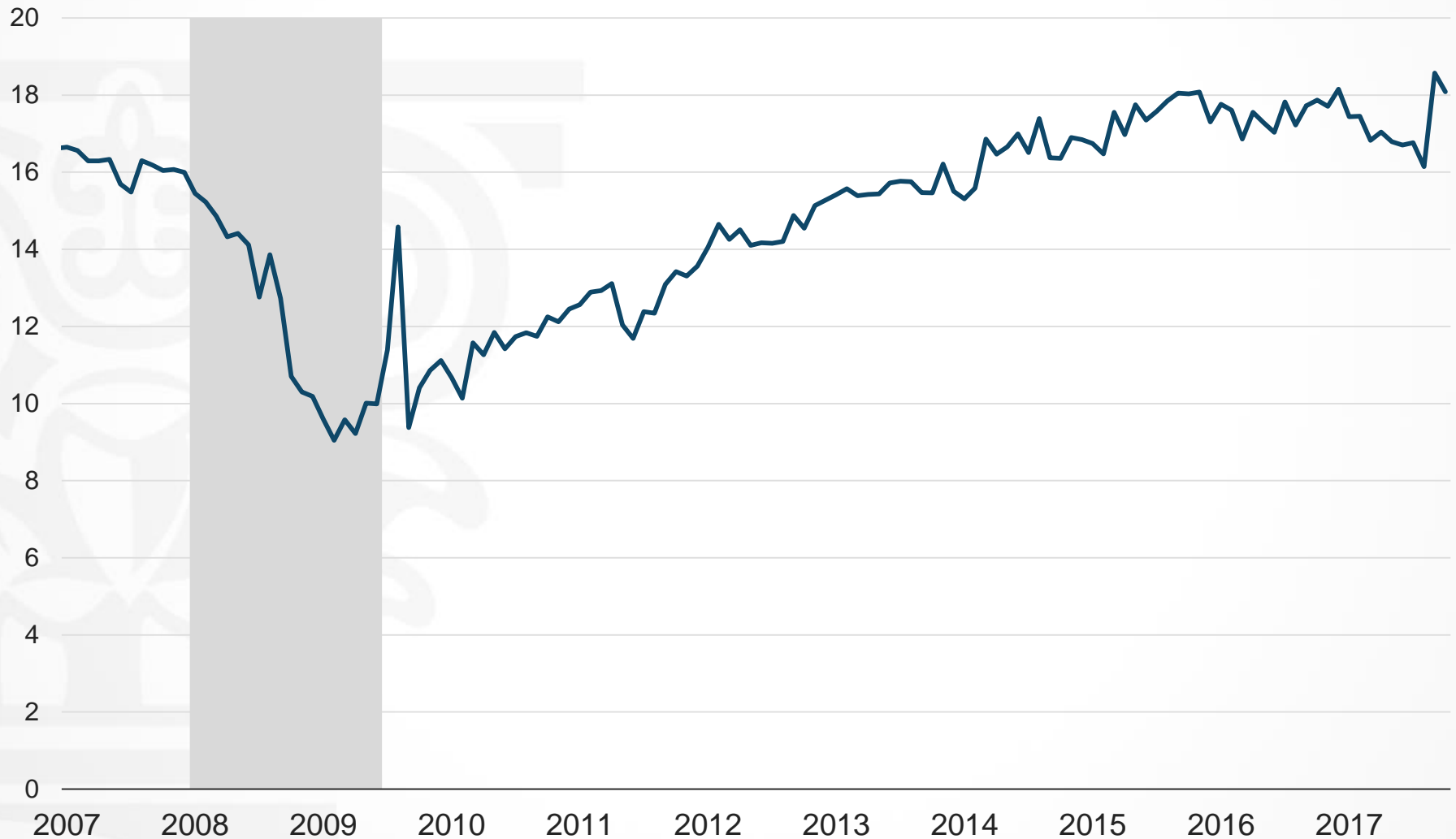


Over the past year, monthly total retail sales have been increasing at an average year-over-year rate of just over 4 percent, although about 1 percent less when auto and gas prices are excluded. Looking ahead to upcoming holiday sales, some analysts are projecting strong increases of around 4 percent over 2016 holiday spending levels.



While light vehicle sales spiked up in the months following the recent hurricanes and related flooding, some analysts expect sales levels to ease back to average around 17 million units going forward in 2018.

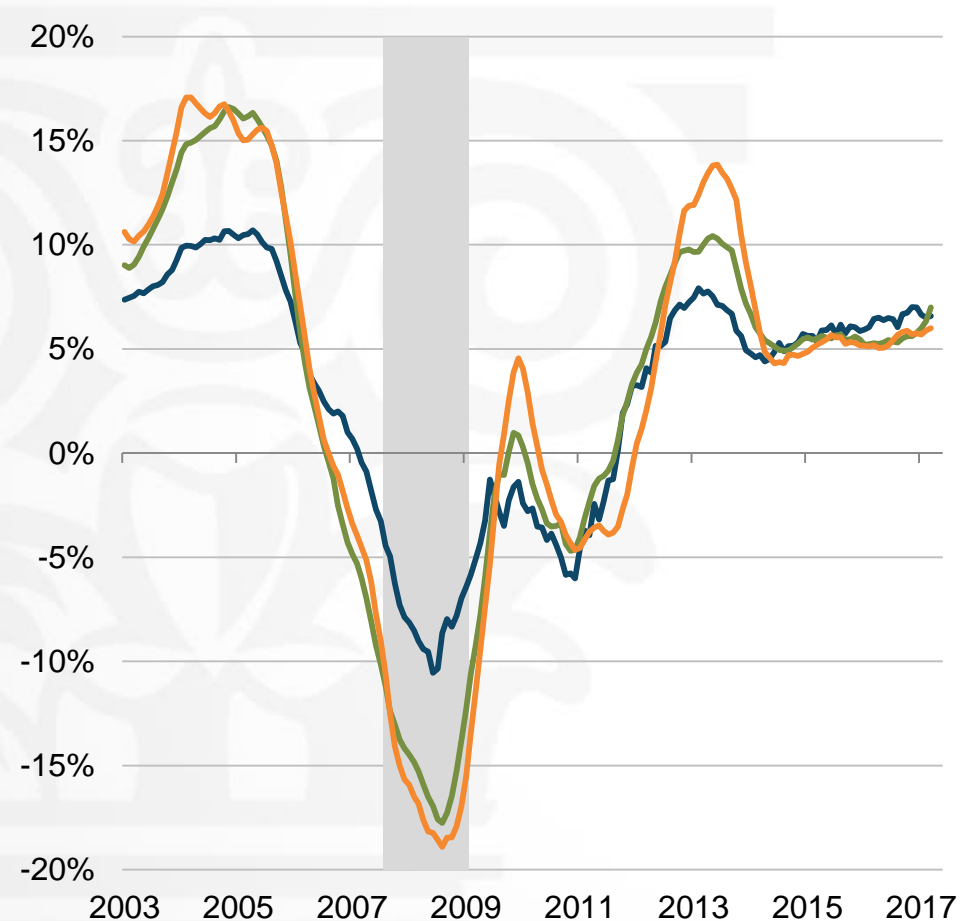
Total Light Weight Vehicle Sales
millions of units, SAAR



The housing market continues to expand, with home prices besting inflation and with sales of both new and existing homes continuing to grow at a slow, steady pace.

U.S. House Prices

monthly index, year-over-year percent change

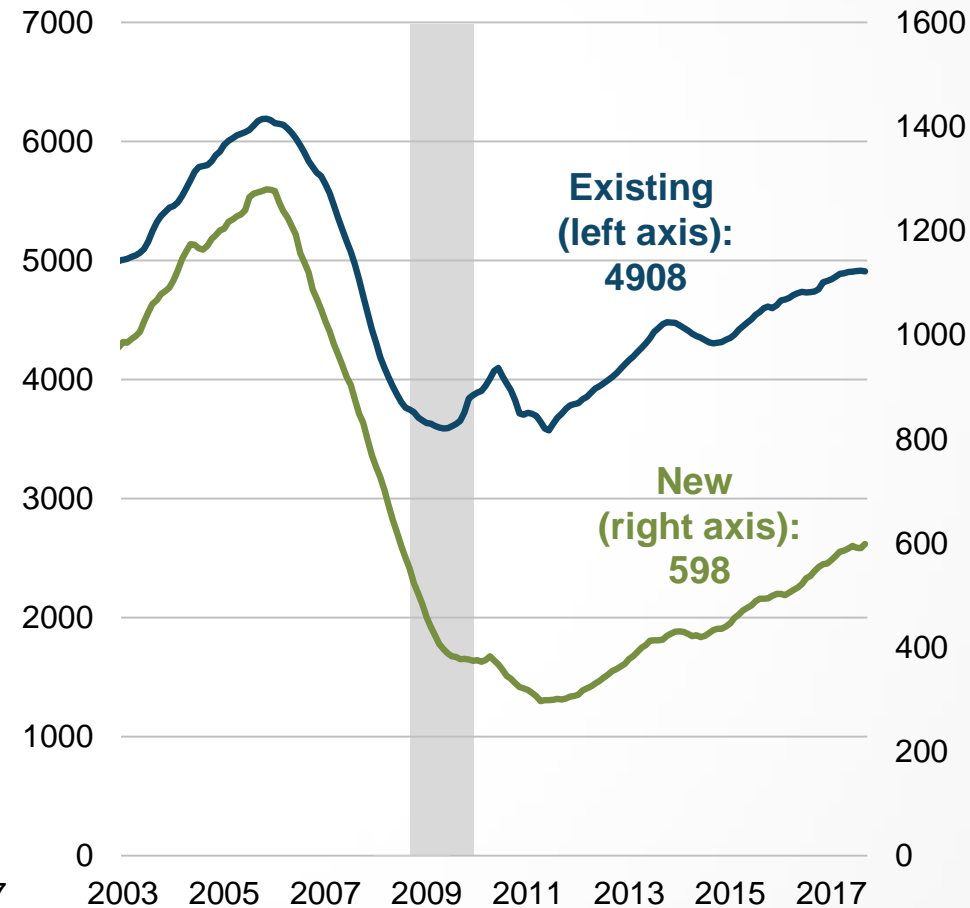


Source: FHFA, S&P/Case-Shiller, CoreLogic; Haver Analytics

through August 2017

U.S. Single Family Homes Sales

12-month moving average, thousands
SAAR



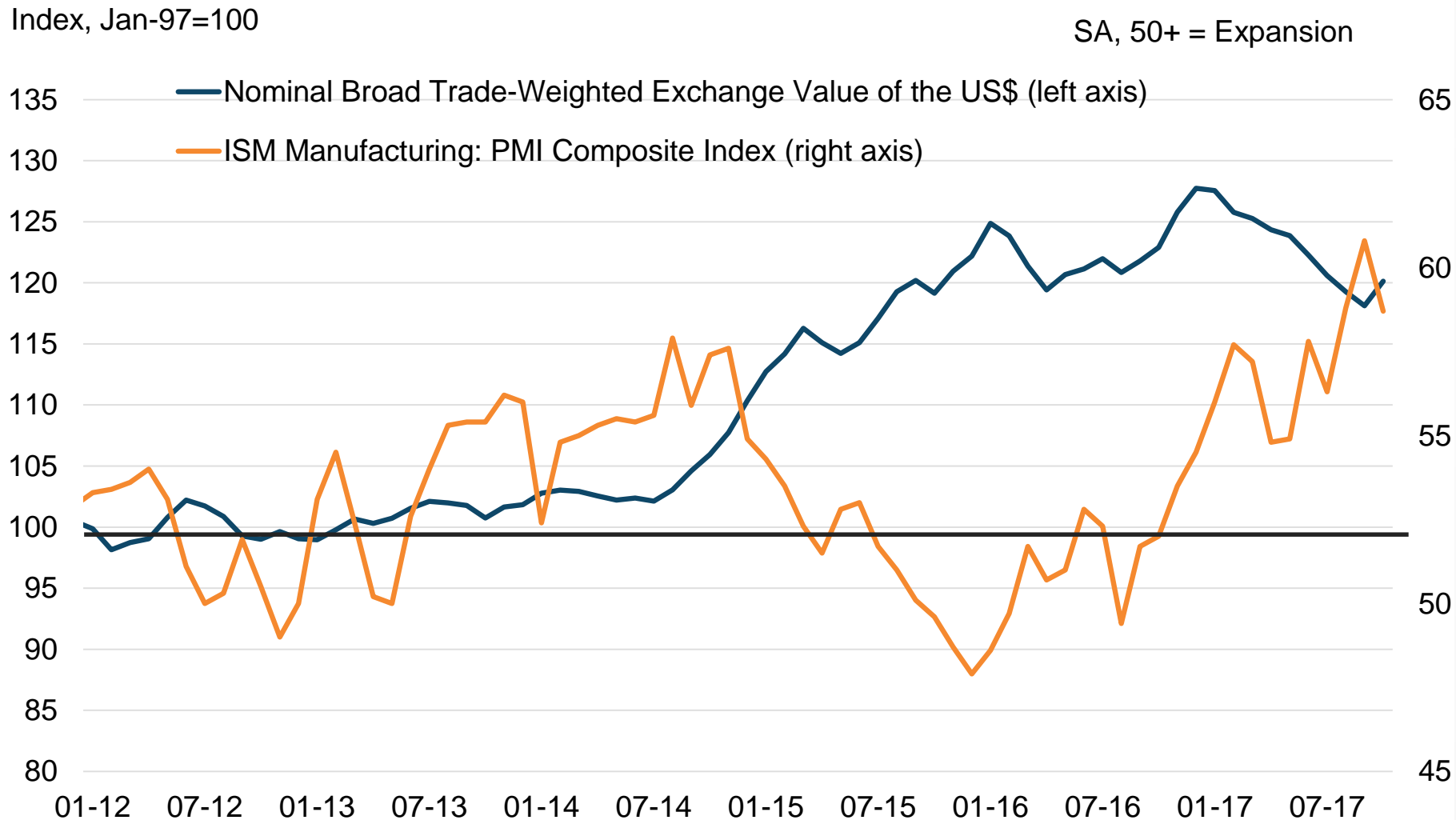
Sources: National Association of Realtors, U.S. Census Bureau; Haver Analytics

through September 2017

Business Activity

A recent run-up in the ISM's manufacturing index appears to coincide with some stabilization and reversal of the dollar's appreciation.

The Dollar and the Manufacturing Sector

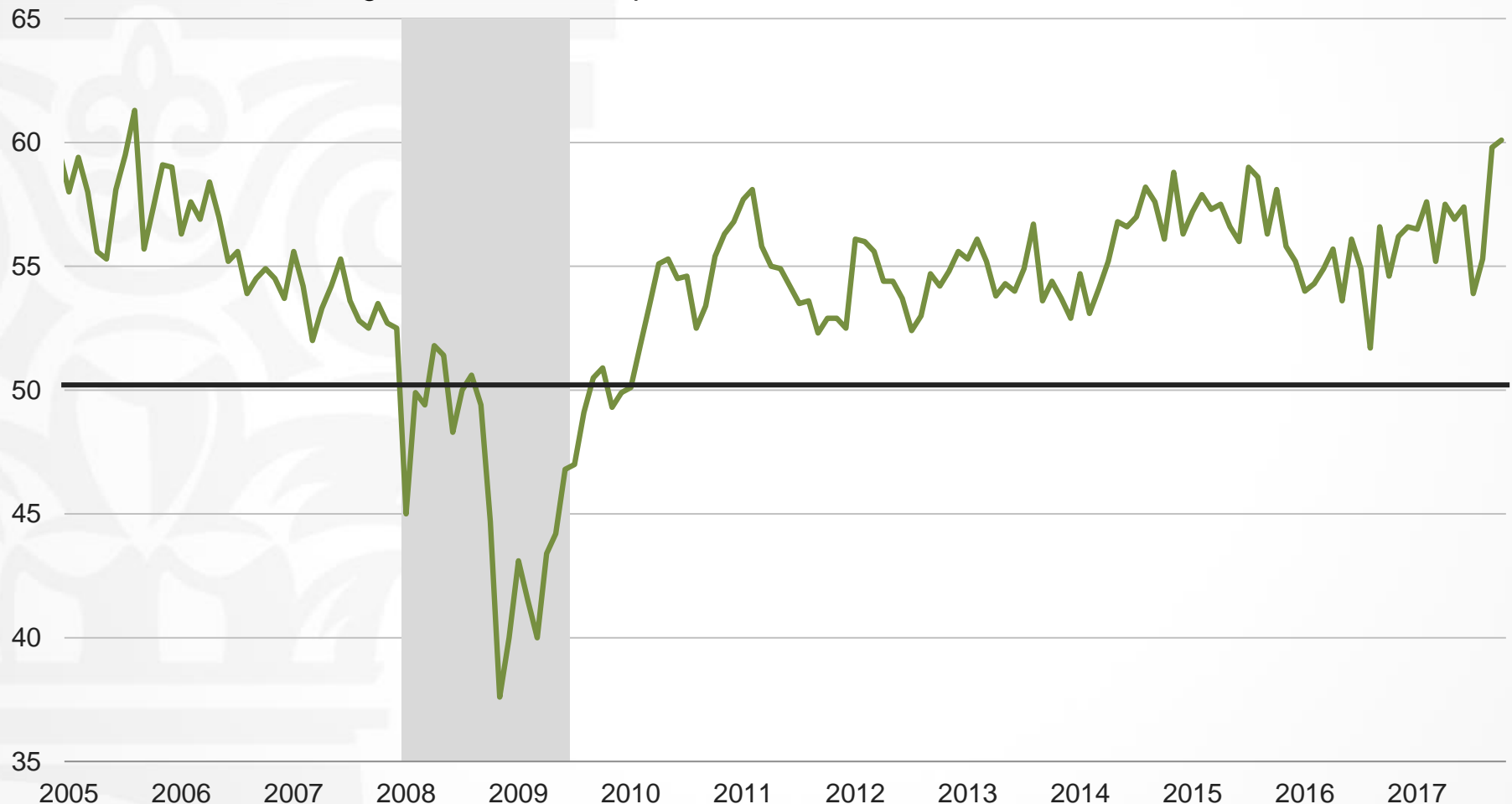


The services sector, which makes up a much larger share of the US economy (~80%), appears to be healthy and expanding.

ISM Non-Manufacturing Index

Seasonally Adjusted

50 or greater indicates expansion, less than 50 indicates contraction





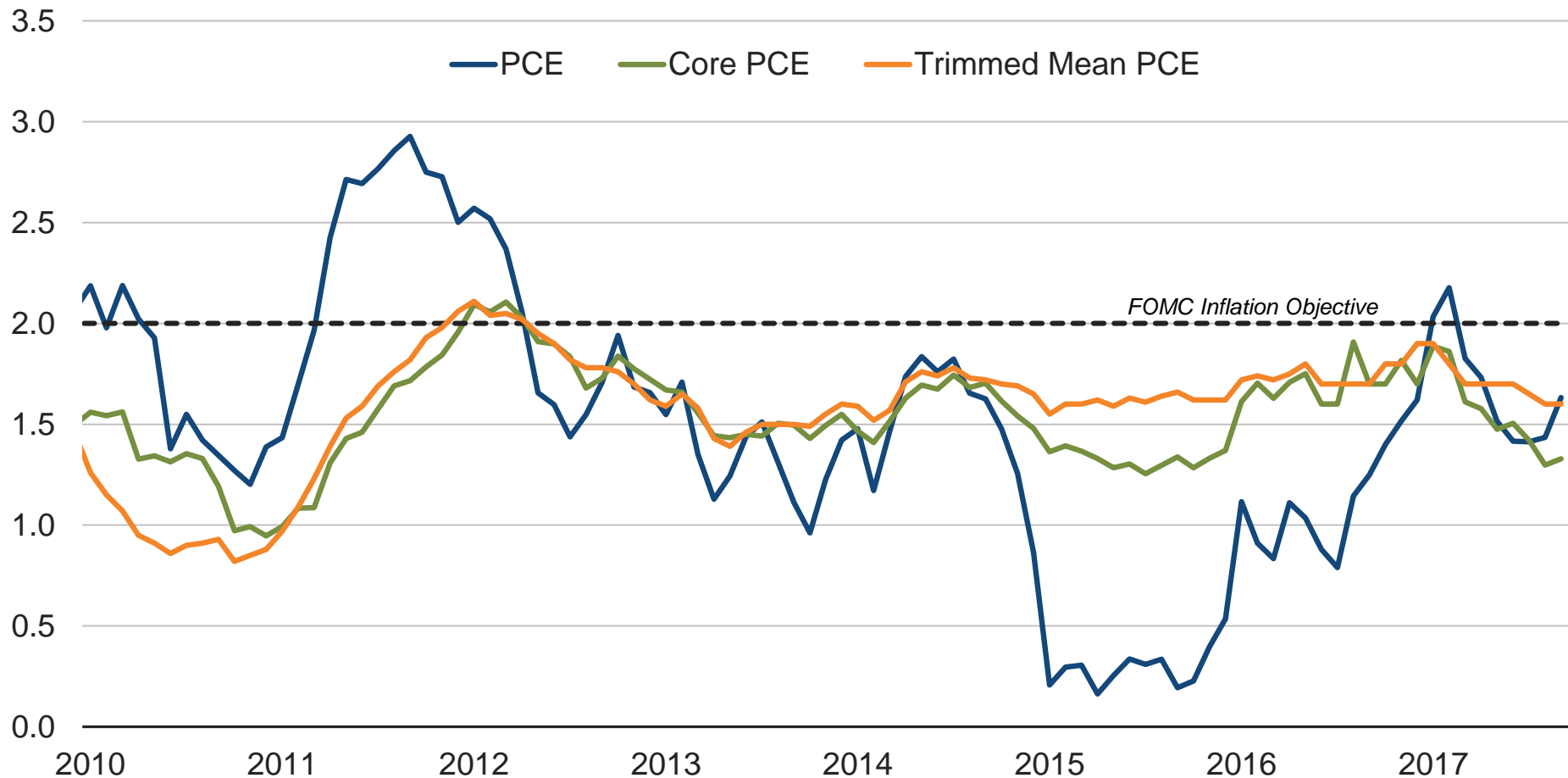
Inflation

Interest Rates

Aside from a headline increase due to a jump in gasoline prices, retail price pressures remain muted.

Personal Consumption Expenditure (PCE) Price Index

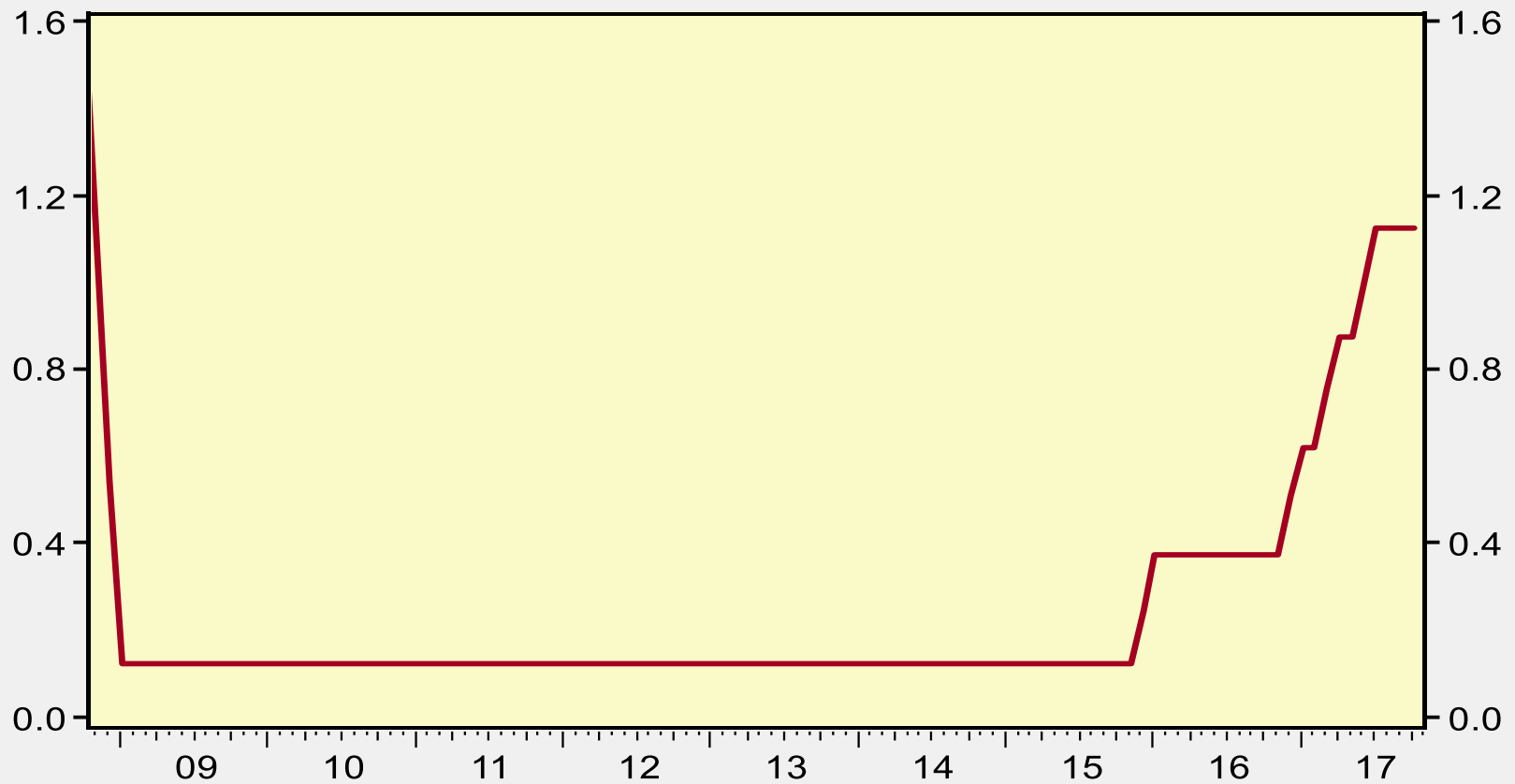
year-over-year percent change, monthly



In July, the FOMC raised the federal funds rate target to a range between 1 and 1¼ percent, the fourth such increase since June 2006.

Federal Open Market Committee: Fed Funds Target Rate

%

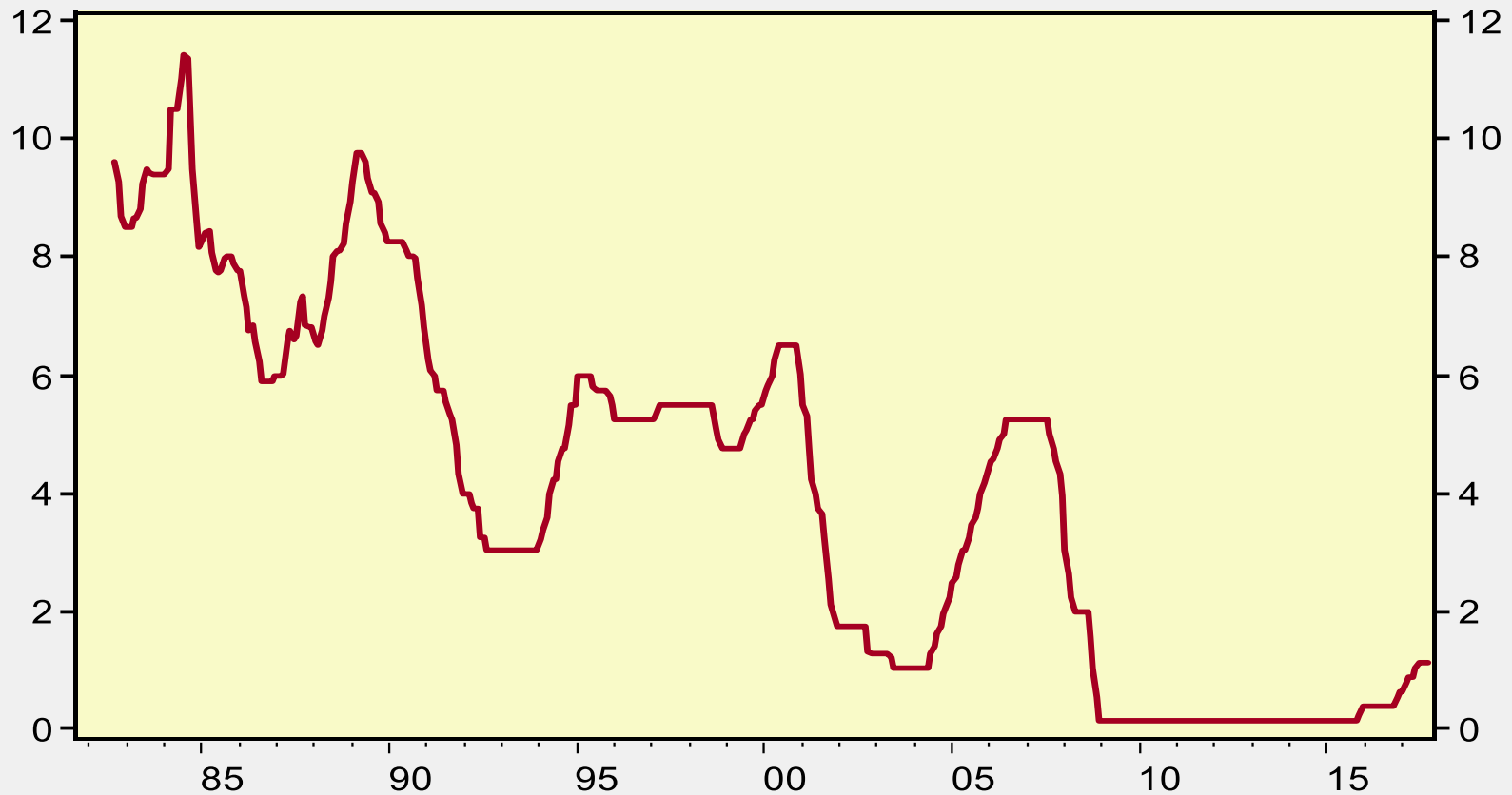


Source: Federal Reserve Board /Haver Analytics

Still, even in comparison with relatively recent history, the funds rate remains at unprecedented lows.

Federal Open Market Committee: Fed Funds Target Rate

%



Source: Federal Reserve Board /Haver Analytics

The slide features a dark blue header bar at the top. On the left side, there is a light gray decorative graphic of a classical column capital. The main title, "The Outlook", is centered in a large, bold, dark blue font.

The Outlook

The future path of Fed policy will be data dependent.

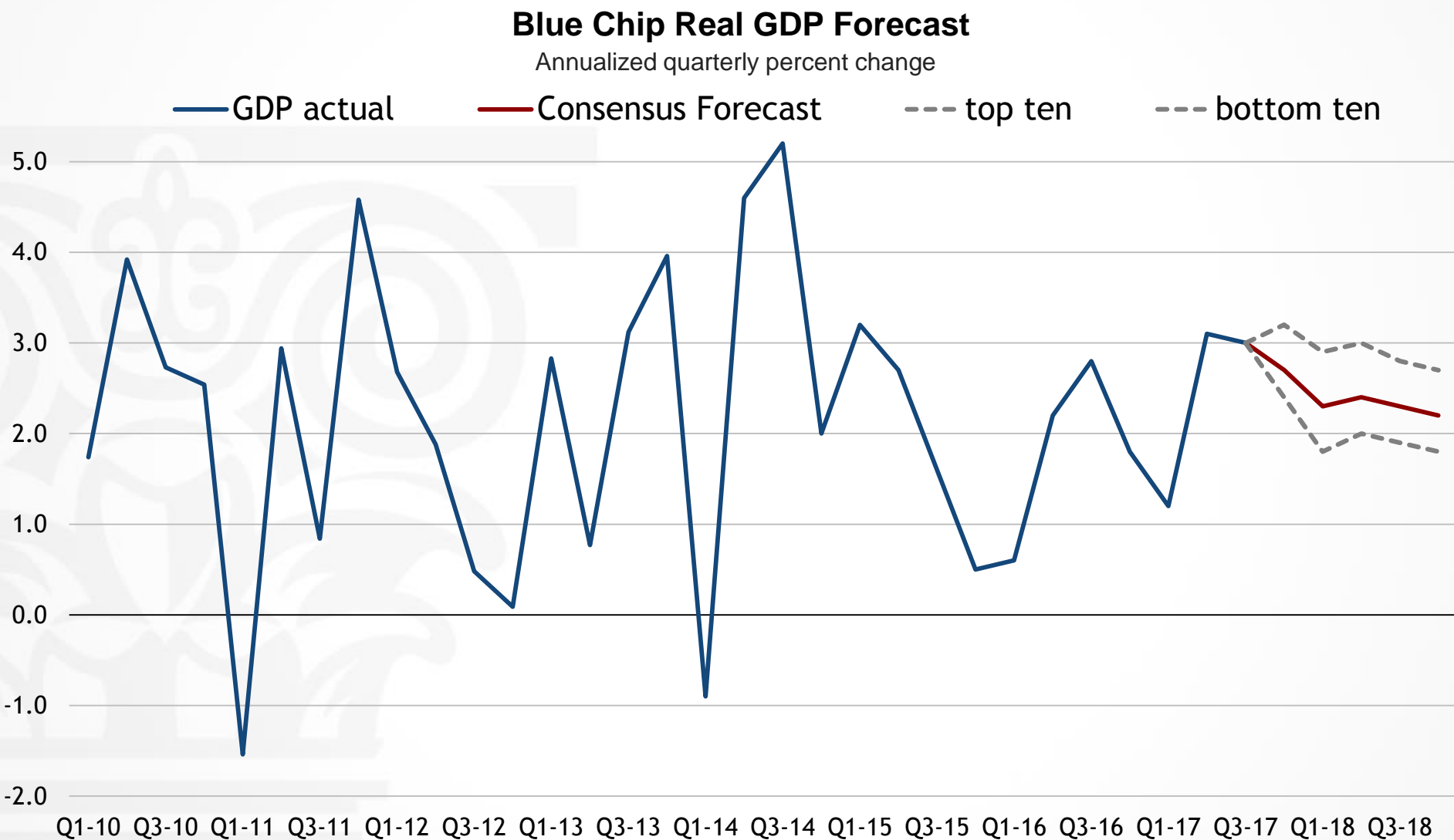
- In determining the timing and size of future adjustments to the target range for the federal funds rate, the FOMC **will assess realized and expected economic conditions** relative to its objectives of maximum employment and 2 percent inflation.
- This assessment will take into account a wide range of information, including:
 - Labor market measures
 - Inflation pressures and expectations
 - Readings on financial and international developments

Raphael Bostic's Perspective

- “...a reasonable economic forecast for the foreseeable future is more of the same: GDP growth continuing a bit above 2 percent, the unemployment rate in the low 4s, and modest increases in real wage growth.”
- “Under my baseline scenario, I think it will be appropriate for interest rates to rise gradually over the next couple of years, as our policy position is still very accommodating rather than neutral. How gradual that pace will be depends on the strength of the incoming macroeconomic data and what it implies for the economic outlook.”

Atlanta Fed President Raphael Bostic, November 14, 2017

With respect to the outlook for the economy going forward, private economists expect GDP to expand at roughly 2.3% through the end of next year.



What we're hearing anecdotally from "Main Street" business contacts in Tennessee

- **Tennessee contacts are mostly optimistic, with expectations for slow and steady growth over the coming year.**
- **Transportation contacts are citing strong activity with a rebound in freight demand from a two year slump.**
- **Tourism and hospitality contacts continue to cite robust activity.**
- **With historically low unemployment rates, we're increasingly hearing reports of a tightening labor market, especially from those in the construction industry.**
- **The business environment is very competitive, and most firms report having limited pricing power. As a result, businesses are continuing to focus on cost containment and efficiency enhancements to maintain and improve margins.**



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